

The Modern Payroll **Playbook**



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Getting Started

Payroll is a fundamental function of your business. Entrusting your payroll to a provider is one of the most important technology decisions your company will make. The laws that regulate payroll are complex and continually changing, and the risks of non-compliance are high.

More importantly, employees depend on their paychecks. If an error occurs or a payroll runs late, there are real-life consequences — a bill that doesn't get paid, an illness that doesn't get treated, a family that can't afford groceries.

Fortunately, as payroll legislation gets more complicated, payroll processing technology gets smarter. This playbook provides information, tips, and checklists to help you make the best software choice for your organization.

What Does Payroll Processing Software Do?

Common features of a payroll solution include calculating employee wages, subtracting withholdings and deductions, and generating the direct deposit file. Automation simplifies workflows and approvals, reduces manual data entry, runs pre-submit audits, and generates reports. The more advanced the system, the more you can customize features to meet the unique needs of your company.

Benefits of automated payroll management:

- Reduced processing time
- Improved accuracy
- Easier compliance
- Accurate, on-time payments
- Data consistency
- Better data security
- Employee self-service
- Mobile access

\$274M+

The Department of Labor's Wage and Hour Division recovered **\$274M+ in backwages and damages** for more than 163,000 workers in 2023. [\(WHD\)](#)

Keeping Track of Payroll Compliance

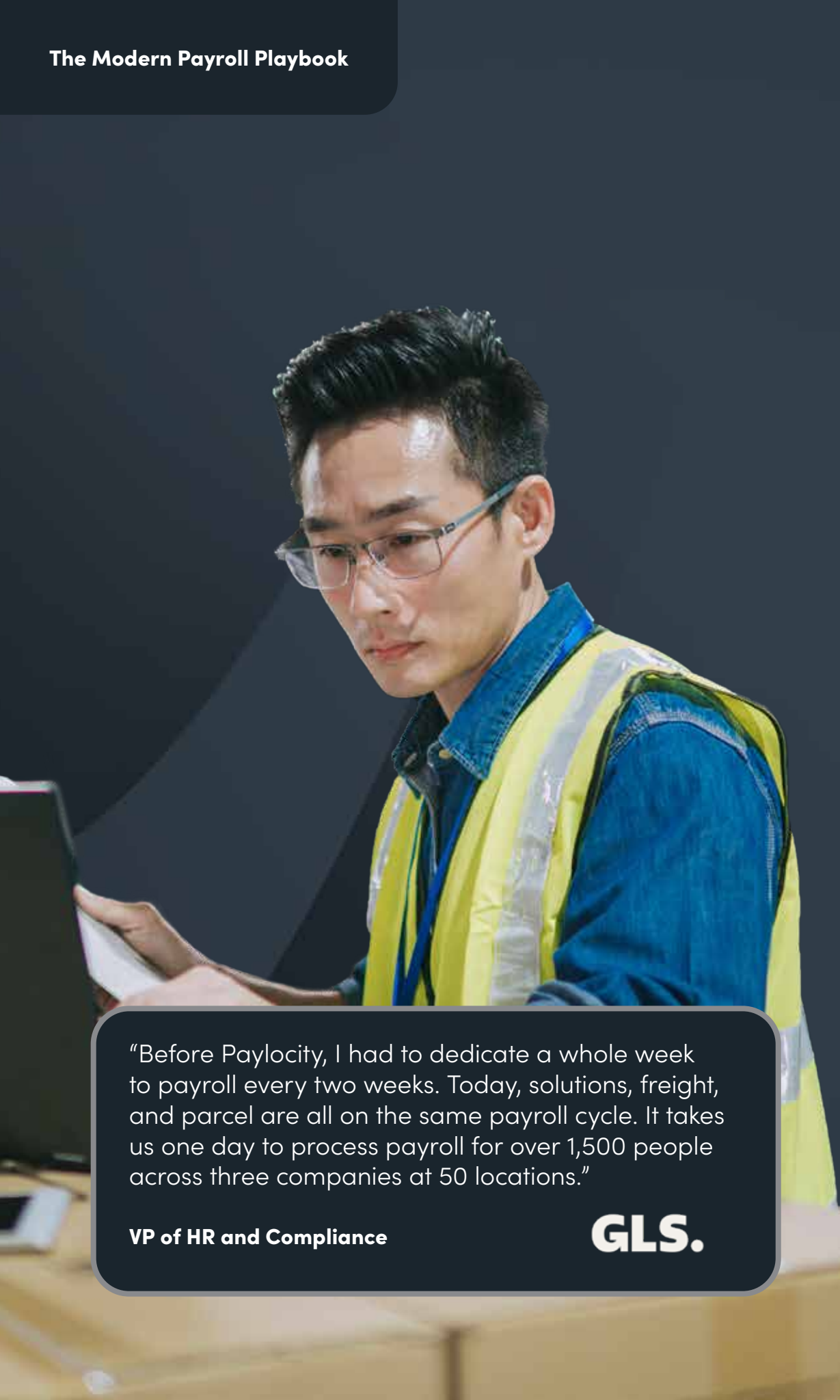
There are many laws that regulate how and when employees are paid. Employers are expected to follow minimum wage guidelines, which vary from state to state and even at the local level. Compliance also includes withholding the right tax amounts, submitting reports and payments with different tax authorities, correctly classifying employees and calculating overtime pay, and paying employees promptly according to a pay schedule.

In addition to submitting federal income taxes, most organizations within the U.S. must follow a mix of labor and payroll tax compliance mandates from the Internal Revenue Service (IRS), Department of Labor (DOL), and Equal Employment Opportunity Commission (EEOC).

Best practices for ensuring payroll compliance include regularly auditing internal processes, creating a compliance checklist — and choosing reliable software.

Pro Tip: Laws and Regulations

Learn more about employment laws and regulations in our [Toolkit: Compliance Must-Haves for Every HR Pro.](#)



“Before Paylocity, I had to dedicate a whole week to payroll every two weeks. Today, solutions, freight, and parcel are all on the same payroll cycle. It takes us one day to process payroll for over 1,500 people across three companies at 50 locations.”

VP of HR and Compliance

GLS.

5 Things to Know About Payroll Compliance

1. Compliance laws that pertain to payroll mostly focus on similar areas (like compensation, taxes, and record-keeping), but often vary by geography and authority (federal vs. state vs. local). If a company has multiple branches across different states, they must adhere to applicable laws for each location.
2. Requirements vary depending on several factors, including size and location of your company, the type of goods or services it provides, and its employee classifications.
3. Common compliance errors include misclassifying workers, not using the correct tax forms, not using current tax withholding rates, and incorrectly tracking the number of hours an employee worked.
4. Some laws require employers to retain a copy of payroll records for a certain number of years after hire or termination. For example, the Fair Labor Standards Act (FLSA) requires employers to keep payroll and employment records for non-exempt employees at least three years after employment ends.
5. Non-compliance can result in heavy fines, penalties, and even lawsuits. Agencies like the Department of Labor can take legal action against a non-compliant company that results in millions of dollars in fines and damages.



Pro Tip: Classifying Employees

Classifying employees correctly as **exempt** or **non-exempt** under the FLSA determines their eligibility for overtime pay, meal and rest breaks, and other employment benefits.

11 Steps to Smooth Payroll Processing

While software solutions automate some or most of the payroll process, employers are ultimately responsible for paying workers correctly and on time — every time. Use the following steps to map out your company's internal process. Where can you save time or reduce manual data entry by implementing technology? Where do you insert human checks and balances?

Step 1: Apply for Tax IDs

Companies must have a federal employer identification number (FEIN), a state tax ID, and possibly a local ID number to file and pay payroll taxes.

Step 2: Collect Employee Documentation

Employers must keep certain information on file for every employee, including Social Security Number, Form W-4 (federal income taxes), Form I-9 (employment eligibility verification), and any applicable state withholding form.

Step 3: Determine Payroll Cycle

When you hire employees, you need to determine how often to pay them. The most common payroll cycles are weekly, bi-weekly, semi-monthly, and monthly. Review wage and hour laws in your state to ensure your payroll cycle meets compliance requirements.

Step 4: Track Time and Attendance

Before you can calculate each employee's pay, you need to know how much they worked during that pay cycle. Most payroll solutions integrate with time-keeping systems, but some offer built-in time and attendance software.

Step 5: Review and Approve Time

A compliant payroll business process will include supervisor review and approval of timecards before the payroll is actually processed. The supervisor's approval should also be documented and retained in case of a future audit.

Step 6: Calculate Wages and Deductions

Deduct authorized withholdings, such as employee taxes, benefits premiums, and wage garnishments, to determine an employee's net pay.

Step 7: Run an Audit

Always check for errors before submitting payroll for processing to save you time and stress. Software solutions with automated pre-submit audits flag irregularities, like a worker receiving twice their normal pay.

Step 8: Submit or Disburse Payroll

Many employers offer direct deposit, which is disbursed by your organization's banking agent when you submit the finished payroll. If you also offer printed checks, they have to be ordered and distributed.

Step 9: Pay Taxes

File and remit payments for state and federal payroll taxes as well as any income taxes you withheld on behalf of each employee. Timely deposits can help you avoid penalties at quarter-end.

Step 10: Post to General Ledger

Log payroll expenses in your general ledger. Most payroll solutions will let you export files to your accounting software. Advanced solutions offer various levels of custom mapping, including self-service options for quick visibility.

Step 11: Retain Records

Organizations must retain payroll and tax records according to state and federal laws. In addition to meeting compliance requirements, these records may be helpful if any legal or regulatory issues arise.

Choosing a Payroll Solution

You have a vast array of options when it comes to choosing the best payroll software — and technology provider — for your organization. Finding the right balance between cost, reliability, and efficiency takes planning, patience, and keen organizational skills.

Simplify the selection process with these tips and the checklist that follows.

- Engage key stakeholders early, which might include your CIO, CFO, or other business leaders. Invite them to vendor demonstrations so they can hear firsthand about the features most important to them.
- Ask providers about their experience with companies like yours — a similar industry, employee count, or pay structure. Be clear about your unique payroll needs, like variable deductions or shift differentials, to ensure the software can handle them.
- Support is crucial, so vet providers carefully. Read customer reviews and ask colleagues for recommendations.
- Make sure you understand the pricing model to avoid hidden fees, like charges for extra payroll runs or specific features.
- Walk through the solution implementation process, including onboarding and ongoing training. Ask how the provider rolls out software updates and enhancements.
- Appoint a superuser in your company who can master the new system and help train others. This helps ensure a smooth transition and effective use of the software organizationally.



Payroll Software Evaluation Checklist

Must-Have	Want	Feature	Description
<input type="checkbox"/>	<input type="checkbox"/>	Direct deposit	Eliminates the need to print and distribute checks and makes payment faster and easier for employees.
<input type="checkbox"/>	<input type="checkbox"/>	Payroll reports	Most solutions come with out-of-the-box reports for quick insights. Advanced solutions allow for more customization and deeper analytics.
<input type="checkbox"/>	<input type="checkbox"/>	Auditing and error reporting	A payroll solution should catch errors before they occur. Pre-submit audits flag potential issues.
<input type="checkbox"/>	<input type="checkbox"/>	General ledger mapping	Custom configurations map activities like earnings, deductions, and taxes in the format your accounting software requires.
<input type="checkbox"/>	<input type="checkbox"/>	Tax filing	Automates tax filing and W-2s, with built-in tax tables that automatically update as tax rates change.
<input type="checkbox"/>	<input type="checkbox"/>	Employee self-service	Lets employees update personal information (like bank account or home address) and gives them access to vacation balances, pay stubs, and W-2 forms.
<input type="checkbox"/>	<input type="checkbox"/>	On demand payment	Allows employees to request a portion of their earnings before payday to cover expenses.
<input type="checkbox"/>	<input type="checkbox"/>	Prorated and retro pay	Accounts for changes made between pay periods.
<input type="checkbox"/>	<input type="checkbox"/>	Wage garnishment	Manages state, federal, and private wage garnishment requirements.
<input type="checkbox"/>	<input type="checkbox"/>	Time tracking	While most solutions integrate with third-party systems, comprehensive platforms offer built-in time tracking so data flows seamlessly into payroll.
<input type="checkbox"/>	<input type="checkbox"/>	Expense management	Automates reporting and payment processing to improve accuracy, store documentation, and get employees reimbursed faster.
<input type="checkbox"/>	<input type="checkbox"/>	Compensation	Helps manage and allocate budget, leveraging data to support pay changes like merit increases or bonuses.
<input type="checkbox"/>	<input type="checkbox"/>	Global payroll	If your organization has employees in other countries, global payroll helps you manage foreign currencies and complex compliance requirements.
<input type="checkbox"/>	<input type="checkbox"/>	Service	Is there an internal, dedicated support team for your account?

How Modern Tech Simplifies Complex Payroll

By automating routine tasks and minimizing manual data entry, payroll software empowers businesses to focus on strategic growth and employee satisfaction. But today's modern payroll solutions can do much more.

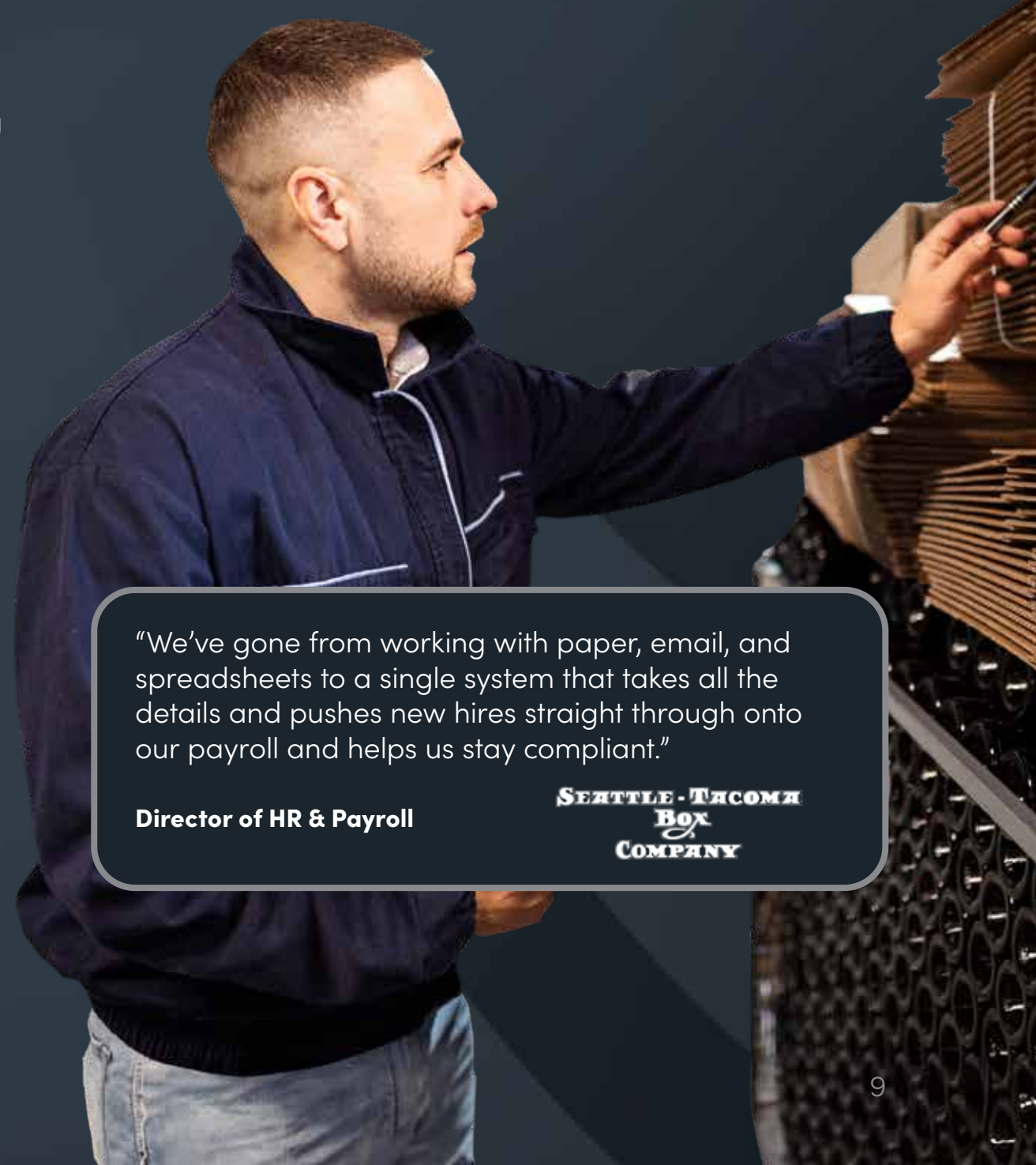
A complete Human Capital Management (HCM) platform centralizes employee information, connecting payroll with other key HR functions like time and labor, compensation, performance, and benefits. Building from a single employee record simplifies compliance, reduces administrative time for HR, and generates a wealth of data insights.

To stay ahead of continual shifts in employment laws – and to meet the needs of an increasingly diverse and dispersed workforce – companies can take advantage of these advanced features from Paylocity:

General Ledger Mapping

A company's general ledger is a fundamental tool in accounting and finance. It provides a detailed record of an organization's financial transactions, which is essential for financial reporting, decision-making, compliance, and overall financial management.

Paylocity offers options ranging from specialized implementation and customized reporting to low-maintenance self-service tools that empower you to configure, maintain, and create journal entries on your own. With self-service, a guided experience helps you set up mappings and track activity like workers compensation, giving you more flexibility and quick visibility.



"We've gone from working with paper, email, and spreadsheets to a single system that takes all the details and pushes new hires straight through onto our payroll and helps us stay compliant."

Director of HR & Payroll

**SEATTLE-TACOMA
Box
COMPANY**

Automated Audits

The purpose of a payroll audit is to catch errors as early as possible — before processing your payroll. Automatic audits act as safeguards and call out any unexpected data entry, and features like tax geolocation can help companies ensure each employee is set up to pay the correct taxes based on their location.

Paylocity provides more than 40 configurable pre-submit audits to flag any irregularities, while our Payroll Readiness Dashboard provides a comprehensive overview of all your critical payroll tasks.

All-in-One Functionality

When time tracking, payroll, HR, and talent management are all part of the same system, information flows seamlessly throughout to reduce data entry errors and save major administrative time.

Paylocity's complete platform makes it easier to collect employee information and smooth out the transition from candidate recruitment to new-hire onboarding. Automated time tracking flags employees who need prorated or retro pay and lets you modify the calculations or use as-is. Best of all, employees and managers can access pay information and submit approvals from the same mobile app.

Integrations

Integrating your HR Information System (HRIS) with other tools and systems extends the services you offer to employees and helps unlock even higher levels of accuracy and efficiency. Not surprisingly, some technology providers make this easier to accomplish than others.

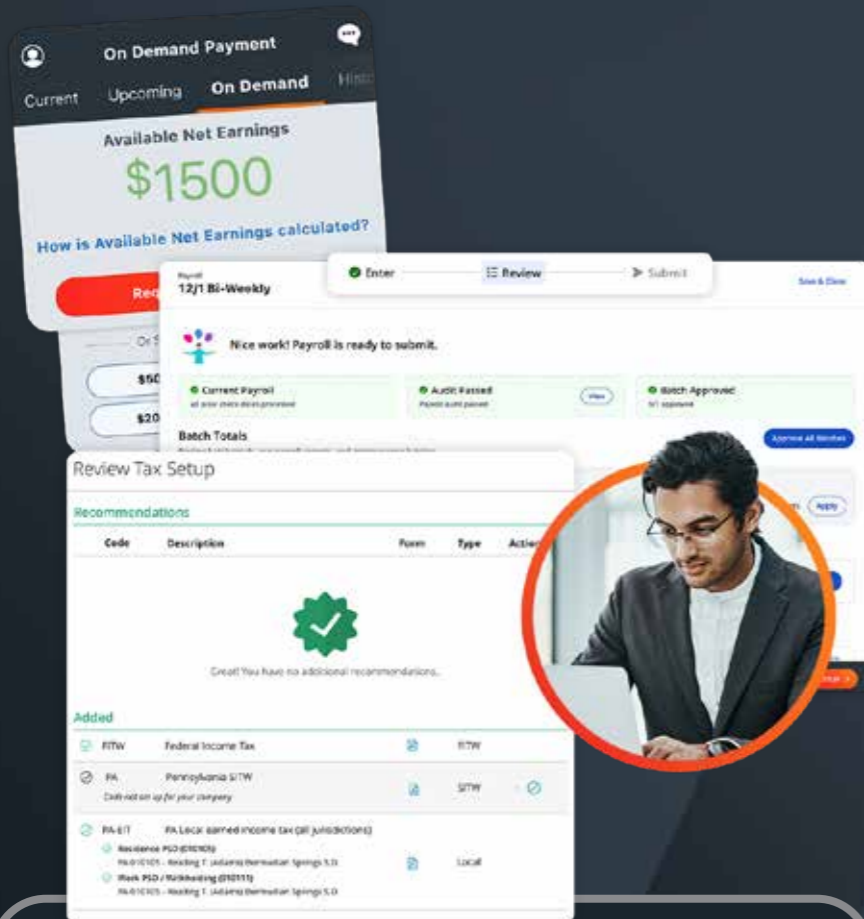
With Paylocity, you can activate hundreds of integrations, such as retirement plan record keepers, benefits administration, time keeping and point of sale (POS), applicant tracking, active directory, enterprise resource planning (ERP), and workers' compensation. Developer-friendly APIs allow data to flow automatically between systems and keep information up to date no matter what tools and processes you use.





Your Modern Payroll Provider

Paylocity offers more than your standard payroll solution. Process complex payroll in just a few clicks, customize configurations and reporting, and improve the employee experience with the most complete HCM platform for the modern workforce.



What makes Paylocity Payroll different?

- **Pre-processing safeguards:** Automated audits and a readiness dashboard catch errors early to avoid compliance issues — without requiring employees to review and approve their own paychecks.
- **Per-employee pricing:** You pay per employee, not per payroll, so you can run as many payrolls as you need without incurring additional costs.
- **Custom general ledger mapping:** Choose from self-guided options or more hands-on implementation services with our subject matter experts.
- **Cross-function workflows:** Built-in time and labor, talent management, and benefits administration modules let data flow throughout the system without the need for manual data entry.
- **Employee-centric tools:** Empower employees with a user-friendly mobile app and flexible options like On Demand Payment.
- **Global Payroll:** Set up, manage, and pay domestic and global employees from a single platform.

“Paylocity makes it much easier to pay higher rates for certain hours. We can implement rules based on time punches on holiday dates or late-night shifts, so that the higher rates automatically flow into payroll. We can now offer extra pay without worrying about the complex calculations.”

Accounting Manager



Explore more and see how you can save time and gain confidence with Paylocity's Payroll software solutions.